

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Grosse Pointe	County Wayne
Fiscal Year End June 30, 2006	Opinion Date November 29, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 1-248-952-5000	
Street Address 5750 New King Street, Suite 200		City Troy	State Mi
Zip 48098			
Authorizing CPA Signature Thomas E. Darling, CPA <small>Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, ou=US, ou=Rehmann Robert, email=ted@rehmann.com Date: 2006.12.21 15:35:21 -0500</small>		Printed Name Thomas E. Darling	
		License Number	



**CITY OF GROSSE POINTE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2006**

CITY OF GROSSE POINTE, MICHIGAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2006

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 29, 2006

To the City Council
City of Grosse Pointe
Wayne County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Grosse Pointe, Michigan*, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Grosse Pointe, Michigan's* management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Grosse Pointe, Michigan*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General and Local Streets funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of the *City of Grosse Pointe, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 12 and the Schedule of Funding Progress on Pages 47 and 48 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Grosse Pointe, Michigan's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Rehman Lobson

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Grosse Pointe, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2006.

Financial Highlights

- The current fiscal year ended with total unreserved, undesignated fund balances for all governmental type funds in the amount of \$1,918,446.
- The General Fund unreserved fund balance amounted to \$3,303,811 at fiscal year end.
- In 2003, the City of Grosse Pointe extended a 30 year installment loan to the Marina Fund for \$1,350,000 bearing interest at 6% for the construction of a new marina. The project incurred an additional \$166,000 in unanticipated expenses. On May 15, 2006, the City Council readjusted the loan amount to \$1,500,000 and the loan terms were revised to 20 years at 3% interest. This adjustment will allow the Marina Fund to meet the annual principal and interest payments to the General Fund, and also allow the Marina Fund to retain approximately \$20,000 in annual operating income for future marina maintenance and improvements.
- On May 16, 2006, the City received a charitable donation in the amount of \$235,847 from the Ruth M. Hoffman Trust. Mrs. Hoffman was a long time resident of Grosse Pointe. The funds have been set aside for future projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include judicial, general government, public safety, public works, recreation and culture, and health and welfare. The business-type activities of the City

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

include water distribution and sanitary sewer operations, a municipal parking system, and a marina.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Local Streets funds, each of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General Fund and Local Streets fund.

2. **Proprietary funds.** The City maintains one type of proprietary fund: *Enterprise funds* are used to provide the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sanitary sewer operations, its municipal parking system, and marina.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitary sewer operations, municipal parking system, and marina, all of which are considered to be major funds of the City.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Grosse Pointe, assets exceeded liabilities by \$22,130,982 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (73%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

City of Grosse Pointe's Net Assets

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$5,491,610 or 25%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$161,436 during the current fiscal year due to a decrease in governmental activities of \$(358,937) and an increase in business-type activities of \$520,373.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 5,777,994	6,143,362	\$ 1,601,625	\$ 1,114,499	\$ 7,379,619	\$ 7,257,861
Capital assets, net	14,270,794	14,602,277	5,623,832	5,569,971	19,894,626	20,172,248
Total assets	20,048,788	20,745,639	7,225,457	6,684,470	27,274,245	27,430,109
Current liabilities	1,130,514	1,271,359	218,301	197,687	1,348,815	1,469,046
Noncurrent liabilities	3,794,448	3,991,516	-	-	3,794,448	3,991,516
Total liabilities	4,924,962	5,262,875	218,301	197,687	5,143,263	5,460,562
Net assets:						
Invested in capital assets, net of related debt	10,465,794	10,612,277	5,623,832	5,569,971	16,089,626	16,182,248
Restricted assets	549,746	502,800	-	-	549,746	502,800
Unrestricted	4,108,286	4,367,687	1,383,324	916,812	5,491,610	5,284,499
Total net assets	\$15,123,826	\$15,482,764	\$ 7,007,156	\$ 6,486,783	\$22,130,982	\$21,969,547

City of Grosse Pointe's Changes in Net Assets

Governmental activities. Governmental activities decreased the City's net assets by \$(358,937), thereby accounting for -222% of the City's change in total net assets. The key factors are expenses related primarily to depreciation in excess of capital asset additions of approximately \$315,000.

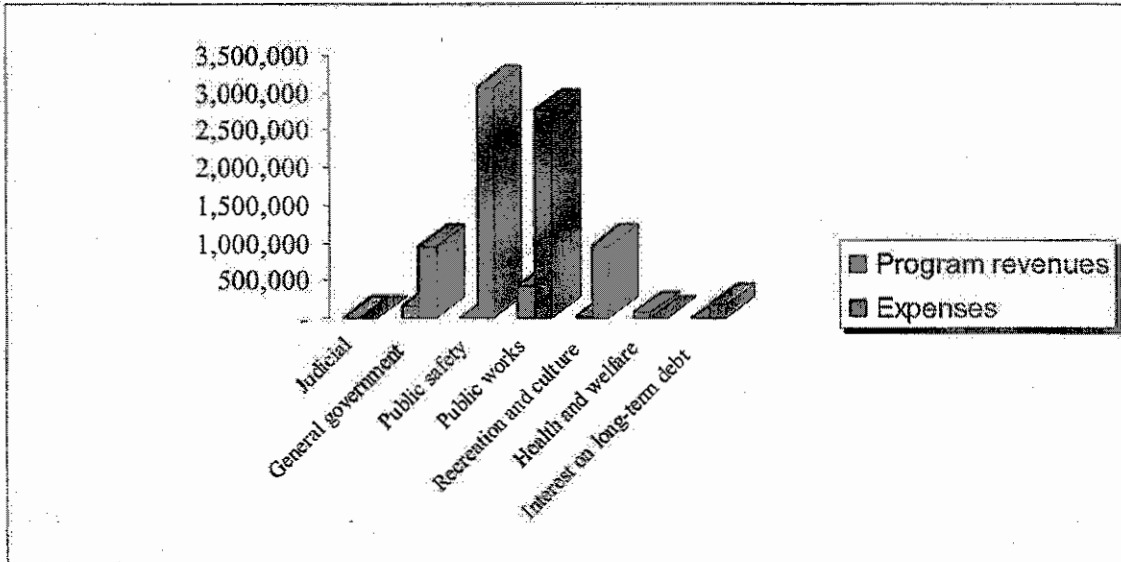
CITY OF GROSSE POINTE, MICHIGAN
Management's Discussion and Analysis

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenues:						
Charges for services	\$ 292,902	491,001	\$ 2,506,116	\$ 2,201,151	\$ 2,799,018	\$ 2,692,152
Operating grants and contributions	334,349	325,785	-	-	334,349	325,785
Capital grants and contributions	63,191	50,765	-	-	63,191	50,765
General revenues:						
Property taxes	5,197,143	5,070,471	-	-	5,197,143	5,070,471
State shared revenue	506,686	511,989	-	-	506,686	511,989
Grants and contributions not restricted to specific	1,193,242	755,570	-	-	1,193,242	755,570
Other	(16,594)	-	25,968	18,787	9,374	18,787
Total revenues	<u>7,570,919</u>	<u>7,205,581</u>	<u>2,532,084</u>	<u>2,219,938</u>	<u>10,103,003</u>	<u>9,425,519</u>
Expenses:						
Judicial	155,396	136,967	-	-	155,396	136,967
General government	854,571	1,067,053	-	-	854,571	1,067,053
Public safety	3,028,784	2,912,248	-	-	3,028,784	2,912,248
Public works	2,758,601	2,639,048	-	-	2,758,601	2,639,048
Recreation and culture	954,992	769,612	-	-	954,992	769,612
Health and welfare	-	-	-	-	-	-
Interest on long-term debt	177,512	200,043	-	-	177,512	200,043
Water and sewer	-	-	1,539,380	1,533,852	1,539,380	1,533,852
Automobile parking	-	-	279,619	278,521	279,619	278,521
Marina	-	-	192,712	223,704	192,712	223,704
Total expenses	<u>7,929,856</u>	<u>7,724,971</u>	<u>2,011,711</u>	<u>2,036,077</u>	<u>9,941,567</u>	<u>9,761,048</u>
Increase (decrease) in net as	(358,937)	(519,390)	520,373	183,861	161,436	(335,529)
Net assets-beginning	15,482,763	16,002,154	6,486,783	6,302,922	21,969,546	22,305,076
Net assets-ending	<u>\$15,123,826</u>	<u>\$15,482,764</u>	<u>\$ 7,007,156</u>	<u>\$ 6,486,783</u>	<u>\$22,130,982</u>	<u>\$21,969,547</u>

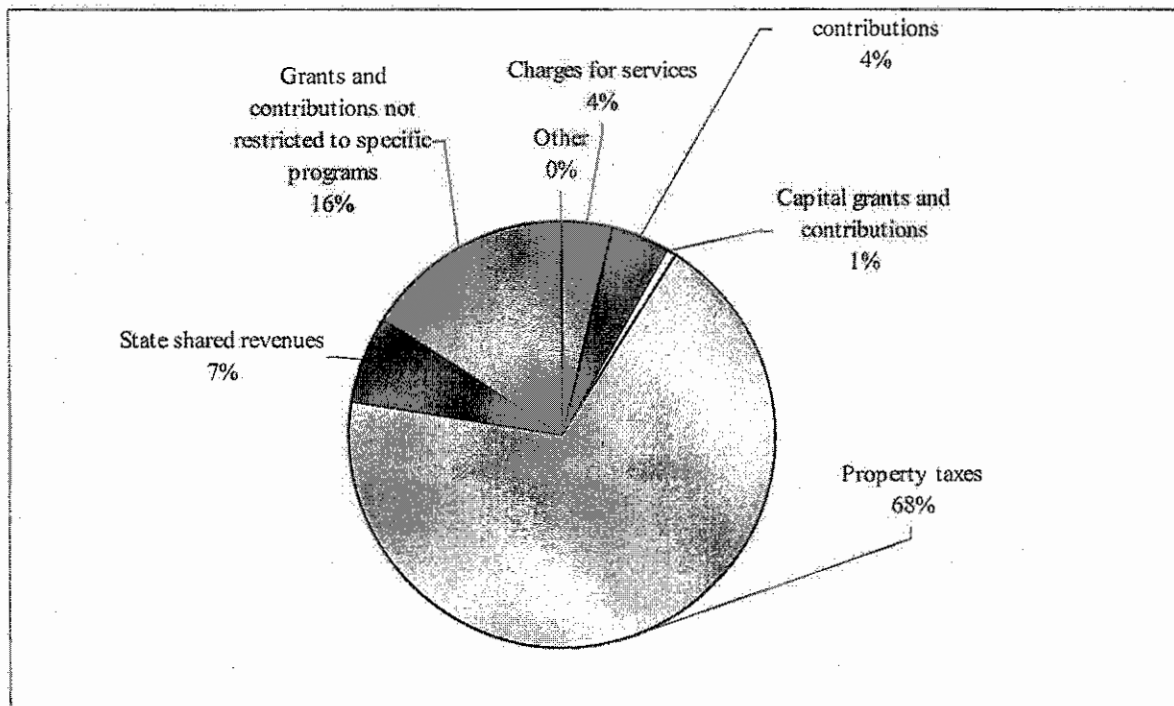
CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



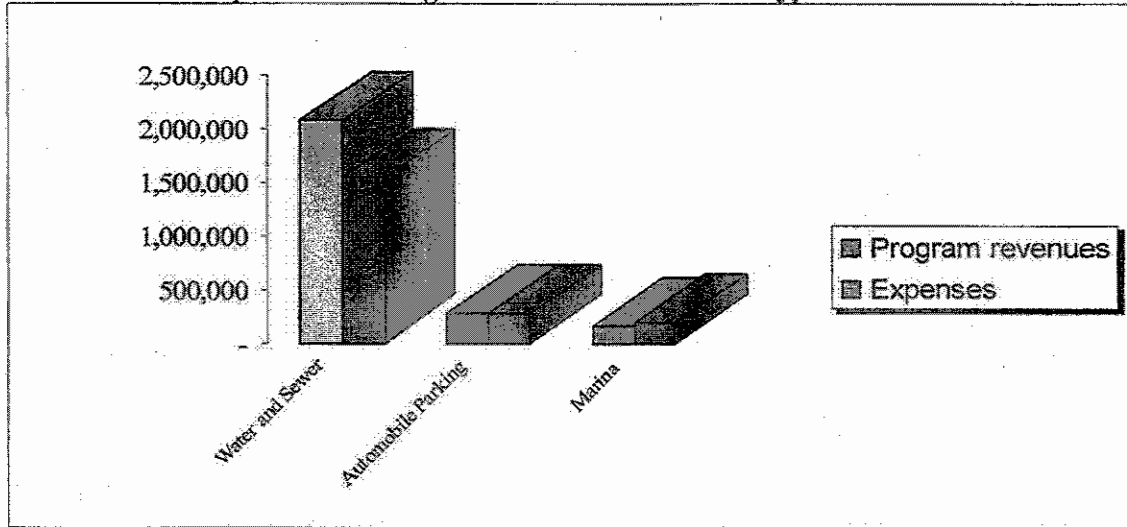
CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

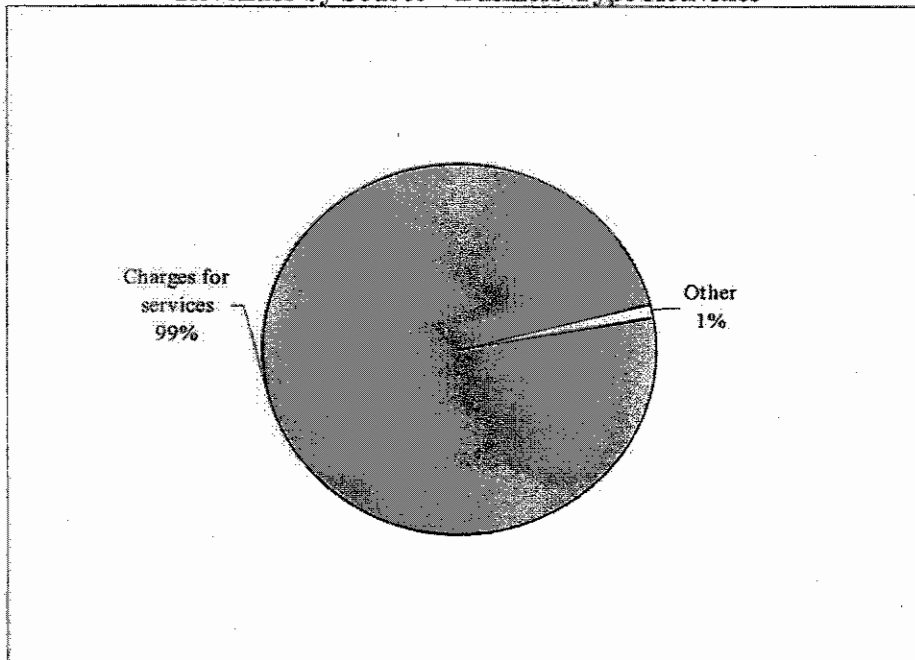
Business-type Activities. Business-type activities increased the City's net assets by \$520,373, accounting for the City's overall increase in net assets. Key elements of this increase are as follows:

- The fee structure for the business type activities is designed to build cash reserves for anticipated future capital expenditures.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,393,061, a decrease of \$(32,119) in comparison with the prior year. Approximately 36% of this total amount, \$1,918,446, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Another 35.9%, \$1,934,554 is *unreserved, designated*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$3,303,811, while total fund balance was \$4,843,315. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 54% of total general fund expenditures, while total fund balance represents 79% of the same amount.

The fund balance of the City's general fund decreased by \$(78,005) during the current fiscal year. This is primarily attributable to the increased cost of payroll and associated benefits, along with capital expenses for parks and recreation improvements.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,827,883 and the Automobile Parking System amounted to \$1,022,037. The increase in net assets for both funds was \$550,481 and \$11,522, respectively. Over the past several years, the net assets of the Water and Sewer Fund were allowed to build up in order to address the continuing maintenance costs of an aging system. These net assets are offset by a deficit to unrestricted net assets in the Marina Fund in the amount of \$(1,466,596) representing a decrease in net assets of \$(41,630).

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The increase in budgeted expenditures of \$484,400 can be briefly summarized as follows:

Budgeted expenditures were increased due to additional costs associated with:

- Engineering and legal fees related to downtown project developments of approximately \$70,000.
- Overtime required in the public safety department of approximately \$186,500.
- Prisoner board, court appointed attorney and clearance costs in the amount of \$44,000.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

- Ordinance printing and publishing, transition costs and an increase in the cost of public utilities of approximately \$21,250.
- Village maintenance and public utilities of approximately \$ \$16,000.
- Parks and Recreation special events of approximately \$8,000.
- The acquisition and installation of platform tennis courts of approximately \$86,000.
- The acquisition and installation of an ice rink at Neff Park of approximately \$82,000.
- Construction of a storage garage at Neff Park in the amount of \$18,650.

The following budget to actual variances occurred:

- Expenses in several areas of the City were under budgeted amounts, including the following:
 - Municipal court capital outlay, under budget by \$21,000.
 - Public safety capital outlay, under budget by \$27,000.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$ 19,878,826 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, and roads, highways, and other infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was \$(293,422) or -1% which represents a decrease in governmental activities of \$(331,483) or -2%, and an increase in business-type activities of \$53,861 or 1%.

Major capital asset events during the current fiscal year included the following:

- The local street resurfacing project for 2005-2006.

City of Grosse Pointe's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,628,841	\$ 1,000,845	\$ 2,629,686
Construction in Progress	-	17,535	17,535
Buildings and systems	3,376,189	4,547,072	7,923,261
Vehicles and Equipment	674,567	58,380	732,947
Improvements	3,246,051	-	3,246,051
Elworthy Park	141,688	-	141,688
Other	267,802	-	267,802
Infrastructure	4,935,657	-	4,935,657
Total	<u>\$ 14,270,795</u>	<u>\$ 5,623,832</u>	<u>\$ 19,894,627</u>

Further information regarding capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,805,000, backed by the full faith and credit of the government. Its purpose is attributable in total to governmental activities.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

City of Grosse Pointe's Outstanding Debt **General Obligation Bonds**

	Governmental Activities	Business-Type Activities	Total
Building Authority bonds	\$ 1,430,000	\$ -	\$ 1,430,000
General obligation bonds	2,375,000	-	2,375,000
	<u>\$ 3,805,000</u>	<u>\$ -</u>	<u>\$ 3,805,000</u>

There were no new issues of general obligation debt during the fiscal year ended. Total obligation debt decreased by \$(185,000) due to payments on principal by the City during the year.

Further information regarding long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Current property development and projected assessed valuation.
- The reduction of State Shared Revenue.
- Inflation and the rising cost of employee benefits.
- Public Safety Contract negotiations.
- Rising water supply and sewage processing cost.
- Expanded Recreation Program Services and the associated expenses.
- Planning for additional Forestry expenditures as it relates to the Ash Borer infestation.
- Capital expenditures for aging infrastructure (Streets, Water Mains and Sewers) along with capital expenditures for equipment replacement.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 17147 Maumee Avenue, Grosse Pointe, Michigan 48230.

**BASIC FINANCIAL
STATEMENTS**

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and investments	\$ 4,403,651	\$ 1,727,955	\$ 6,131,606
Receivables (net)	597,185	568,360	1,165,545
Internal balances	701,084	(701,084)	-
Prepaid expenses	76,074	6,394	82,468
Capital assets not being depreciated	1,628,841	1,018,380	2,647,221
Capital assets being depreciated, net	12,641,953	4,605,452	17,247,405
Total assets	<u>20,048,788</u>	<u>7,225,457</u>	<u>27,274,245</u>
Liabilities			
Accounts payable	389,875	185,586	575,461
Unearned revenue	30,000	32,715	62,715
Noncurrent liabilities:			
Due within one year	710,639	-	710,639
Due in more than one year	3,794,448	-	3,794,448
Total liabilities	<u>4,924,962</u>	<u>218,301</u>	<u>5,143,263</u>
Net assets			
Invested in capital assets, net of related debt	10,465,794	5,623,832	16,089,626
Restricted for:			
Highways and streets	31,478	-	31,478
Public safety	43,268	-	43,268
Other purposes	475,000	-	475,000
Unrestricted	4,108,286	1,383,324	5,491,610
Total net assets	<u>\$ 15,123,826</u>	<u>\$ 7,007,156</u>	<u>\$ 22,130,982</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year ended June 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Judicial	\$ 155,396	\$ -	\$ -	\$ -	\$ (155,396)
General government	854,571	93,949	-	63,191	(697,431)
Public safety	3,028,784	-	-	-	(3,028,784)
Public works	2,758,601	104,693	334,349	-	(2,319,559)
Recreation and culture	954,992	26,456	-	-	(928,536)
Health and welfare	-	67,804	-	-	67,804
Interest on long-term debt	177,512	-	-	-	(177,512)
Total governmental activities	7,929,856	292,902	334,349	63,191	(7,239,414)
Business-type activities:					
Water and sewer	1,539,380	2,074,652	-	-	535,272
Automobile parking	279,619	280,382	-	-	763
Marina	192,712	151,082	-	-	(41,630)
Total business-type activities	2,011,711	2,506,116	-	-	494,405
Total primary government	\$ 9,941,567	\$ 2,799,018	\$ 334,349	\$ 63,191	\$ (6,745,009)

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
For the Year ended June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (7,239,414)	\$ 494,405	\$ (6,745,009)
General revenues:			
Property taxes	5,197,143	-	5,197,143
State shared revenue	506,686	-	506,686
Grants and contributions not restricted to specific programs	1,193,242	-	1,193,242
Unrestricted investment earnings	-	25,968	25,968
Loss on sale of capital assets	(16,594)	-	(16,594)
Total general revenues	6,880,477	25,968	6,906,445
Change in net assets	(358,937)	520,373	161,436
Net assets, beginning of year	15,482,763	6,486,783	21,969,546
Net assets, end of year	<u>\$ 15,123,826</u>	<u>\$ 7,007,156</u>	<u>\$ 22,130,982</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Local Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and investments	\$ 3,928,651	\$ -	\$ 475,000	\$ 4,403,651
Receivables				
Accounts receivable	303,466	-	-	303,466
Taxes - delinquent	294,097	-	-	294,097
Less: allowance for doubtful accounts	(77,960)	-	-	(77,960)
Interest and dividends	24,438	-	-	24,438
Due from other funds	67,303	61,626	84,159	213,088
Due from other governments	-	13,787	39,357	53,144
Advance to other fund	1,464,823	-	-	1,464,823
Prepaid expenditures	74,681	557	836	76,074
Total assets	<u><u>\$ 6,079,499</u></u>	<u><u>\$ 75,970</u></u>	<u><u>\$ 599,352</u></u>	<u><u>\$ 6,754,821</u></u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 138,415	\$ 238	\$ 11,648	\$ 150,301
Accrued liabilities	150,814	3,363	2,133	156,310
Cash bonds and deposits	40,450	-	-	40,450
Due to other funds	868,633	40,891	67,303	976,827
Deferred revenue	37,872	-	-	37,872
Total liabilities	<u><u>1,236,184</u></u>	<u><u>44,492</u></u>	<u><u>81,084</u></u>	<u><u>1,361,760</u></u>
Fund balances				
Reserved for				
Prepays	74,681	557	-	75,238
Advances to other funds	1,464,823	-	-	1,464,823
Unreserved, designated	1,934,554	-	-	1,934,554
Unreserved, undesignated for				
General fund	1,369,257	-	-	1,369,257
Special revenue fund	-	30,921	518,268	549,189
Total fund balances	<u><u>4,843,315</u></u>	<u><u>31,478</u></u>	<u><u>518,268</u></u>	<u><u>5,393,061</u></u>
Total liabilities and fund balances	<u><u>\$ 6,079,499</u></u>	<u><u>\$ 75,970</u></u>	<u><u>\$ 599,352</u></u>	<u><u>\$ 6,754,821</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
June 30, 2006

Fund balances - total governmental funds \$ 5,393,061

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	28,888,452
Deduct: accumulated depreciation	(14,617,658)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds.

Add: deferred revenues	7,872
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: interest payable	(42,814)
Deduct: bonds payable	(3,805,000)
Deduct: compensated absences	(700,087)

Net assets of governmental activities	<u>\$ 15,123,826</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year ended June 30, 2006

	<u>General</u>	<u>Local Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 5,006,297	\$ -	\$ 186,090	\$ 5,192,387
Licenses and permits	110,522	-	-	110,522
Intergovernmental				
Federal	63,191	-	-	63,191
State	506,686	89,747	244,602	841,035
Charges for services	198,953	-	-	198,953
Fines and forfeitures	243,667	-	-	243,667
Interest and rent	180,507	-	-	180,507
Other	712,850	-	39,645	752,495
Total revenues	7,022,673	89,747	470,337	7,582,757
Expenditures				
Current:				
Judicial	155,396	-	-	155,396
General government	1,068,072	-	-	1,068,072
Public safety	2,799,852	-	14,944	2,814,796
Public works	1,088,091	420,719	275,453	1,784,263
Parks and recreation	615,235	-	-	615,235
Debt service				
Principal	-	-	185,000	185,000
Interest and fees	-	-	179,551	179,551
Capital outlay	400,199	393,091	19,273	812,563
Total expenditures	6,126,845	813,810	674,221	7,614,876
Revenues over (under) expenditures	895,828	(724,063)	(203,884)	(32,119)
Other financing sources (uses)				
Transfers in	-	754,481	219,352	973,833
Transfers out	(973,833)	-	-	(973,833)
Total other financing sources (uses)	(973,833)	754,481	219,352	-
Net change in fund balances	(78,005)	30,418	15,468	(32,119)
Fund balances, beginning of year	4,921,320	1,060	502,800	5,425,180
Fund balances, end of year	\$ 4,843,315	\$ 31,478	\$ 518,268	\$ 5,393,061

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year ended June 30, 2006

Net change in fund balances - total governmental funds \$ (32,119)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	973,252
Deduct: depreciation expense	(1,288,147)
Deduct: loss on disposal of capital assets	(16,587)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net difference in deferred revenue	4,756
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Repayment of bond principal is an expenditure in the governmental funds, but decreases debt in the statement of net assets.

Add: principal payments on long-term liabilities	185,000
Add: change in interest payable on long-term liabilities	2,039

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Less: Increase in the accrual for compensated absences	<u>(187,131)</u>
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Change in net assets of governmental activities	<u><u>\$ (358,937)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year ended June 30, 2006

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 5,222,898	\$ 5,222,898	\$ 5,006,297	\$ (216,601)
Licenses and permits	80,204	80,204	110,522	30,318
Fines and forfeitures	202,442	202,442	243,667	41,225
Intergovernmental	651,684	651,684	569,877	(81,807)
Charges for services	186,230	186,230	198,953	12,723
Investment earnings	150,000	150,000	180,507	30,507
Other	386,361	386,361	712,850	326,489
Total revenues	6,879,819	6,879,819	7,022,673	142,854
Expenditures				
Judicial	166,293	190,293	155,396	(34,897)
General government	1,060,985	1,152,235	1,068,072	(84,163)
Public safety	2,779,029	2,938,529	2,799,852	(138,677)
Public works	1,120,658	1,136,658	1,088,091	(48,567)
Culture and recreation	605,559	613,559	615,235	1,676
Capital outlay	186,950	372,600	400,199	27,599
Total expenditures	5,919,474	6,403,874	6,126,845	(277,029)
Excess (deficiency) of revenues over (under) expenditures	960,345	475,945	895,828	419,883
Other financing sources (uses)				
Transfers out	(1,160,286)	(1,160,286)	(973,833)	186,453
Net change in fund balances	(199,941)	(684,341)	(78,005)	606,336
Fund balance, beginning of year	4,921,320	4,921,320	4,921,320	-
Fund balance, end of year	\$ 4,721,379	\$ 4,236,979	\$ 4,843,315	\$ 606,336

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREETS
For the Year ended June 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 78,000	\$ 78,000	\$ 89,747	\$ 11,747
Total revenues	78,000	78,000	89,747	11,747
Expenditures				
Construction	-	350,000	393,091	43,091
Routine maintenance	379,828	379,828	373,306	(6,522)
Winter maintenance	24,350	24,350	17,082	(7,268)
Traffic services	4,250	4,250	4,487	237
Administration	30,260	40,260	25,844	(14,416)
Total expenditures	438,688	798,688	813,810	15,122
Excess (deficiency) of revenues over (under) expenditures	(360,688)	(720,688)	(724,063)	(3,375)
Other financing sources (uses)				
Transfers in	795,372	795,372	754,481	(40,891)
Net change in fund balances	434,684	74,684	30,418	(44,266)
Fund balance, beginning of year	1,060	1,060	1,060	-
Fund balance, end of year	\$ 435,744	\$ 75,744	\$ 31,478	\$ (44,266)

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Assets				
Current assets				
Cash and investments	\$ 660,585	\$ 1,067,370	\$ -	\$ 1,727,955
Receivables:				
Customers	560,571	-	-	560,571
Accrued interest	2,480	3,589	-	6,069
Other	130	1,590	-	1,720
Due from other funds	755,323	5,967	5,407	766,697
Prepaid expenses	4,523	1,857	14	6,394
Total current assets	1,983,612	1,080,373	5,421	3,069,406
Noncurrent assets				
Capital assets not being depreciated	-	1,018,380	-	1,018,380
Capital assets being depreciated	4,900,145	1,811,113	2,251,074	8,962,332
Less accumulated depreciation	(2,658,401)	(1,504,387)	(194,092)	(4,356,880)
Net capital assets	2,241,744	1,325,106	2,056,982	5,623,832
Total assets	4,225,356	2,405,479	2,062,403	8,693,238
Liabilities				
Current liabilities				
Accounts payable	151,712	20,773	3,900	176,385
Accrued liabilities	4,017	4,848	336	9,201
Due to other funds	-	-	2,958	2,958
Unearned revenue	-	32,715	-	32,715
Total current liabilities	155,729	58,336	7,194	221,259
Noncurrent liabilities				
Advance from other fund	-	-	1,464,823	1,464,823
Total liabilities	155,729	58,336	1,472,017	1,686,082
Net assets				
Investment in capital assets	2,241,744	1,325,106	2,056,982	5,623,832
Unrestricted	1,827,883	1,022,037	(1,466,596)	1,383,324
Total net assets	\$ 4,069,627	\$ 2,347,143	\$ 590,386	\$ 7,007,156

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year ended June 30, 2006

	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Operating revenues				
Water sales and sewage disposal	\$ 2,058,477	\$ -	\$ -	\$ 2,058,477
Parking lot and meter charges	-	280,382	-	280,382
Marina rentals and charges for services	-	-	151,082	151,082
Other revenue	16,175	-	-	16,175
Total operating revenues	2,074,652	280,382	151,082	2,506,116
Operating expenses				
General and administrative	160,460	103,492	-	263,952
Cost of water	278,877	-	-	278,877
Cost of sewage disposal	769,837	-	-	769,837
Operation and maintenance	219,896	131,141	36,434	387,471
Depreciation	110,310	44,986	76,303	231,599
Total operating expenses	1,539,380	279,619	112,737	1,931,736
Operating income (loss)	535,272	763	38,345	574,380
Non-operating revenues (expenses)				
Interest income	15,209	10,759	-	25,968
Interest expense	-	-	(79,975)	(79,975)
Total non-operating revenues (expenses)	15,209	10,759	(79,975)	(54,007)
Change in net assets	550,481	11,522	(41,630)	520,373
Net assets, beginning of year	3,519,146	2,335,621	632,016	6,486,783
Net assets, end of year	\$ 4,069,627	\$ 2,347,143	\$ 590,386	\$ 7,007,156

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year ended June 30, 2006

	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Cash flows from operating activities				
Cash received from customers and others	\$ 1,936,142	\$ 299,131	\$151,083	\$ 2,386,356
Cash received from interfund balances	-	94,738	131,899	226,637
Cash payments for interfund balances	(247,550)	(104,754)	(170,640)	(522,944)
Cash payments to employees	(139,767)	(137,805)	(10,265)	(287,837)
Cash payments to suppliers for goods and services	(1,305,193)	(67,769)	(22,102)	(1,395,064)
Net cash provided by operating activities	243,632	83,541	79,975	407,148
Cash flows from investing activities				
Investment income	15,209	10,759	-	25,968
Net cash provided by investing activities	15,209	10,759	-	25,968
Cash flows from capital and related financing activities				
Interest payments on advance from other fund	-	-	(79,975)	(79,975)
Purchase of capital assets	(267,790)	(17,546)	-	(285,336)
Net cash used by capital and financing activities	(267,790)	(17,546)	(79,975)	(365,311)
Net (decrease) increase in cash and cash equivalent	(8,949)	76,754	-	67,805
Cash and cash equivalents, beginning of year	669,534	990,616	-	1,660,150
Cash and cash equivalents, end of year	\$ 660,585	\$ 1,067,370	\$ -	\$ 1,727,955

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
For the Year ended June 30, 2006

	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Reconciliation of operating income				
to net cash provided by operating activities				
Operating income	\$ 535,272	\$ 763	\$ 38,345	\$ 574,380
Adjustments to reconcile operating income				
to net cash provided by operating activities				
Depreciation	110,310	44,986	76,304	231,600
Changes in assets and liabilities:				
Receivables	(138,510)	18,749	-	(119,761)
Due from other funds	(246,528)	94,738	(5,407)	(157,197)
Prepaid expenses	(2,469)	(851)	66	(3,254)
Accounts payable	(14,077)	17,791	3,814	7,528
Accrued liabilities	656	2,009	187	2,852
Due to other funds	(1,022)	(104,754)	(33,334)	(139,110)
Unearned revenue	-	10,110	-	10,110
Net cash provided by operating activities	\$ 243,632	\$ 83,541	\$ 79,975	\$ 407,148

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Pension Trust Fund	Private Purpose Trust
Assets		
Cash and cash equivalents	\$ 501	\$ -
Interest receivable	164,158	-
Prepaid expenses	101,153	-
Investments		
U.S. Government obligations	4,995,907	-
Common stock	19,939,483	-
Corporate bonds	4,423,697	-
Investment pools	1,512,952	-
Total investments	30,872,039	-
Total assets	31,137,851	-
Liabilities		
Accounts payable	30,232	-
Net assets		
Held in trust for pension benefits	31,107,619	-
Total net assets	\$ 31,107,619	\$ -

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF CHANGES IN
FIDUCIARY NET ASSETS
For the Year ended June 30, 2006

	Pension Trust Fund	Private Purpose Trust
Additions		
Contributions - employee	\$ 173,646	\$ -
Investment income		
Interest and dividends	1,064,379	2,286
Net appreciation in fair value of investments	194,200	-
Other	-	17,580
Total investment earnings	1,258,579	19,866
Total additions	1,432,225	19,866
Deductions		
Retirement benefit payments	1,054,056	-
Health insurance payments	231,425	-
Administrative expenses	53,171	-
Project costs	-	144,800
Total deductions	1,338,652	144,800
Change in net assets	93,573	(124,934)
Net assets		
Beginning of year	31,014,046	124,934
End of year	\$ 31,107,619	\$ -

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Grosse Pointe, Michigan (the "City" or "government") is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the City (the primary government) and its component unit. The individual component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

The City of Grosse Pointe Building Authority is governed by a Board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. There are Building Authority bonds outstanding as of year-end, however there is no other activity related to the component unit.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

Government-wide financial statements. The statements of net assets and activities report information on all of the non-fiduciary activities of the primary government (the City.) For the most part, eliminations have been made to remove the effect of double-counting interfund activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which direct expenses are offset by program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable with a particular function or segment. Program revenues include (1) fees, fines and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes and other items, are presented as general revenues.

Fund financial statements. The fund financial statements report in separate statements, information for governmental, proprietary and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, proprietary and fiduciary fund financial statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues reported in the governmental funds to be available if they are collected within ninety days after year-end, with the exception of property taxes which are reported if they are collected within sixty days of year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Local streets fund. This fund accounts for financial resources to be used for the maintenance and construction of local roads.

The City reports the following major proprietary funds:

Water and sewer fund. This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Automobile parking fund. This fund accounts for the activities of the City's parking lot activities.

Marina fund. This fund accounts for the activities of the City's marina.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service fund. Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Pension trust fund. This fund accounts for the activities of the Employees Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

Private purpose trust fund. This fund accounts for the activities of the Grosse Pointe Foundation.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are minor charges between the governmental and business-type functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Liabilities and Equity

Deposits and investments

The City maintains an investment pool for all governmental City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "due from other funds". The general fund holds the investments in "cash and investments" on the fund's balance sheet. The business-type activities of the City have separate investments, by fund, which are classified on the financial statements as "cash and investments." The cash resources of the Employees Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on the pension trust fund investments due to changes in fair value are recognized each year.

Receivables and payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* (the current portion of inter-fund loans) or *advances to/from other funds* (the non-current portion of inter-fund loans.) Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5 - 25
Vehicles and equipment	5 - 25
Improvements	15 - 25
Elworthy/parks and recreation	10 - 40
Other	2 - 10
Infrastructure	5 - 10

Compensated absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned and unused leave hours in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year-end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds.

The City Council requires the City's Director of Finance to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in May. The City's Director of Finance is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

notes, the total of which was not significant in relation to the original budget appropriation valuations.

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2006, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Culture and recreation	\$ 613,559	\$ 615,235	\$ 1,676
Capital outlay	372,600	400,199	27,599
Special Revenue Funds:			
Local streets	798,688	813,810	15,122

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2006:

<u>Deposits & Investments</u>	<u>Deposits</u>	<u>Investments</u>	<u>Other</u>	<u>Total</u>
Statement of Net Assets				
Cash & Cash Equivalents	\$ 341,173	\$ 705,780	\$ 615	\$ 1,047,568
Investments	3,582,053	1,501,985		5,084,038
Statement of Fiduciary Net Assets				
Cash & Cash Equivalents	501			501
Investments	-	30,872,039		30,872,039
	<u>\$3,923,727</u>	<u>\$ 33,079,804</u>	<u>\$ 615</u>	<u>\$37,004,146</u>

The City Council is authorized to designate depositories for City funds, and have determined that the funds are invested in accordance with State of Michigan statutory authority as listed in Note I of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Investment and deposit risk:

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note I of these financial statements. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City chooses to disclose its interest rate risk using the segmented time distribution method. As of June 30, 2006, the City had the following investment maturities.

Investment Type	Amount	Remaining Maturity in Years	
		1-5 years	Greater than 5 years
Governmental Securities	\$ 6,497,892	\$ 5,264,817	\$ 1,233,075
Corporate Bonds	4,423,697	4,423,697	-
Stocks	19,939,483	n/a	n/a
Money Market	2,218,732	n/a	n/a
Total	\$ 33,079,804	\$ 9,688,514	\$ 1,233,075

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the City's investment policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not have specific limits in excess of state law on investment credit risk. As of June 30, 2006, the credit quality ratings on the City's investments are as follows:

	Amount	Ratings					
		AAA	AA	A	BBB	BB	B
Governmental securities	\$ 6,497,892	\$ 6,497,892	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	4,423,697	238,525	197,816	2,411,391	210,044	814,042	551,879
Stocks	19,939,483	n/a	n/a	n/a	n/a	n/a	n/a
Money market	2,218,732	n/a	n/a	n/a	n/a	n/a	n/a
Total	\$ 33,079,804	\$ 6,736,417	\$ 197,816	\$ 2,411,391	\$ 210,044	\$ 814,042	\$ 551,879

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$1,909,066 of the City's bank balance of \$4,009,066 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are either uninsured, unregistered, held by a counterparty in the City's name or are uncategorized as to credit risk.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The investments in Federal agencies, corporate bonds, common stock and the short-term investment fund held by trustee, listed above are in excess of 5% of the City's total investments. All investments held at year-end are reported above.

B. Receivables

Receivables in the governmental activities are 8.9 percent due from other governments, 50.8 percent accounts receivable, 36.2 percent taxes and special assessments and 4.1 percent accrued interest. Business-type activities receivables are 98.6 percent due from customers, 1.1 percent accrued interest and 0.3 percent due from other sources.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Payments in lieu of taxes not yet earned	\$ -	\$ 30,000
Delinquent personal property Taxes	7,872	
Payments in advance of services	<u>-</u>	<u>32,715</u>
Total	\$ <u>7,872</u>	\$ <u>62,715</u>

C. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

<i>Governmental activities:</i>	6/30/2005	Adjustments	7/1/2005			6/30/2006
Asset Type	Balance	to Beginning	Balance	Increases	Decreases	Balance
		Balance				
<i>Capital assets, not being depreciated</i>						
Land	\$ 953,739	\$ 675,102	\$ 1,628,841	\$ -	\$ -	\$ 1,628,841
<i>Capital assets, being depreciated</i>						
Building	5,624,031	(1,103,416)	4,520,615	18,650	-	4,539,265
Vehicles and equipment	2,449,392	(603,650)	1,845,742	204,820	(61,417)	1,989,145
Improvements	674,187	3,847,428	4,521,615	283,219	-	4,804,834
Elworthy/parks and recreation	371,997	110,075	482,072	-	-	482,072
Other	4,198,936	(3,511,671)	687,265	55,478	-	742,743
Infrastructure	13,704,337	586,132	14,290,469	411,085	-	14,701,554
Total capital assets being depreciated	27,022,880	(675,102)	26,347,778	973,252	(61,417)	27,259,613
<i>Accumulated Depreciation</i>						
Building	1,362,350	(419,812)	942,538	220,538	-	1,163,076
Vehicles and equipment	1,607,624	(401,365)	1,206,259	153,149	(44,830)	1,314,578
Improvements	68,098	1,292,844	1,360,942	197,842	-	1,558,784
Elworthy/parks and recreation	77,475	241,653	319,128	21,255	-	340,383
Other	1,386,430	(979,369)	407,061	67,880	-	474,941
Infrastructure	8,872,365	266,049	9,138,414	627,483	-	9,765,897
Total accumulated depreciation	13,374,342	-	13,374,342	1,288,147	(44,830)	14,617,659
Capital assets being depreciated, net	13,648,538	(675,102)	12,973,436	(314,895)	(16,587)	12,641,953
Total capital assets, net	\$ 14,602,277	\$ -	\$ 14,602,277	\$ (314,895)	\$ (16,587)	\$ 14,270,794

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

<i>Business-type activities:</i>	<u>7/1/2005</u>			<u>6/30/2006</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land and land improvements	\$ 1,000,845	\$ -	\$ -	\$ 1,000,845
Construction in Progress	-	17,535	-	17,535
Total capital assets not being depreciated	<u>1,000,845</u>	<u>17,535</u>	<u>-</u>	<u>1,018,380</u>
<i>Capital assets being depreciated:</i>				
Parking ramp and lot improvements	1,542,042	-	-	1,542,042
Machinery and equipment	376,549	-	-	376,549
Utility system	4,524,865	267,801	-	4,792,666
Marina	2,251,074	-	-	2,251,074
Total capital assets being depreciated	<u>8,694,530</u>	<u>267,801</u>	<u>-</u>	<u>8,962,331</u>
<i>Less accumulated depreciation for:</i>				
Parking ramp and lot improvements	1,232,784	35,966	-	1,268,750
Machinery and equipment	293,927	24,242	-	318,169
Utility system	2,480,863	94,974	-	2,575,837
Marina	117,706	76,417	-	194,123
Total accumulated depreciation	<u>4,125,280</u>	<u>231,599</u>	<u>-</u>	<u>4,356,879</u>
Total capital assets being depreciated, net	<u>4,569,250</u>	<u>36,202</u>	<u>-</u>	<u>4,605,452</u>
Business-type activities capital assets, net	<u>\$ 5,570,095</u>	<u>\$ 53,737</u>	<u>\$ -</u>	<u>\$ 5,623,832</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 65,096
Public safety	107,523
Public works	885,827
Recreation and culture	<u>229,701</u>
Total depreciation expense - governmental	<u>\$ 1,288,147</u>
Business-type activities	
Water and sewer	\$ 110,310
Automobile parking	44,986
Marina	<u>76,303</u>
Total depreciation expense - business-type	<u>\$ 231,599</u>

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

D. Interfund Receivables, Payables and Transfers

The following are the interfund receivables and payables balances at June 30, 2006:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 67,303
Local streets fund	General fund	61,626
Nonmajor governmental funds:		
Major streets fund	Local streets fund	40,891
Drug forfeiture fund	General fund	43,268
Proprietary funds		
Water supply and sewage disposal	General fund	752,365
	Marina	2,958
Automobile parking system	General Fund	5,967
Marina	General Fund	<u>5,407</u>
		<u>\$ 979,785</u>

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds.

Additionally, there is an advance from the General Fund to the Marina for \$1,464,823 that was used by the Marina fund in the construction of the new marina.

For the year then ended, interfund transfers consisted of the following:

	<u>Transfer In</u>	
	<u>Local Streets</u>	<u>Nonmajor Governmental</u>
		<u>Total</u>
General fund	<u>\$ 754,481</u>	<u>\$ 219,352</u>
		<u>\$ 973,833</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

E. Long-term Debt

Building Authority Bonds. The government issues building authority bonds to finance the renovations of the City Hall building.

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Amount</u>
Governmental activities			
Building authority bonds	4.00% - 4.90%	2014	\$ 1,430,000
Unlimited tax general obligation bonds	4.25% - 5.00%	2020	<u>2,375,000</u>
			<u>\$ 3,805,000</u>

Annual debt service requirements to maturity for all debt outstanding as of June 30, 2006 (excluding employee benefits) are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 210,000	\$ 171,258
2008	210,000	162,450
2009	235,000	152,950
2010	255,000	142,287
2011	280,000	130,377
2012-2016	1,490,000	437,915
2017-2021	<u>1,125,000</u>	<u>140,641</u>
Total	<u>\$ 3,805,000</u>	<u>\$ 1,337,878</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>7/1/2005</u>			<u>6/30/2006</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Building authority bonds	\$ 1,540,000	\$ -	\$ (110,000)	\$ 1,430,000	\$ 135,000
General obligation unlimited tax bonds	2,450,000	-	(75,000)	2,375,000	75,000
Accumulated employee benefits	512,956	187,131	-	700,087	500,639
	<u>\$ 4,547,809</u>	<u>\$ 187,131</u>	<u>\$ (185,000)</u>	<u>\$ 4,505,087</u>	<u>\$ 710,639</u>

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

For the governmental activities, compensated absences are generally liquidated by the general fund.

F. Segment Information – Enterprise Funds

Each enterprise fund is a segment and is reported in a separate column in the fund financial statements; therefore, segment disclosures herein are not required.

G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

Reserves Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes of City financial resources.

Designations Designated fund balances are designations imposed by the City on the use of fund balance for specific purposes.

Restricted Net Assets Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

The schedule of reserved and designated fund balances is as follows:

	<u>Reserved Fund Balance</u>	<u>Designated Fund Balance</u>
Governmental activities		
Advances to other funds	\$ 1,464,823	\$ -
Prepays	75,238	-
Accrued compensated absences	-	700,087
Fire truck	-	234,467
Cable TV proceeds	-	1,000,000
	<u>\$ 1,540,061</u>	<u>\$ 1,934,554</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

provided to employees. The City has purchased commercial insurance for all types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Property Taxes

Property taxes attach as an enforceable lien on property as of December 31 each year. City taxes are levied on the following July 1, and are due on August 10 with the final collection date of February 28 before they are added to the County tax rolls.

Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2005 levy was \$373,651,646. The government's general operating tax rate for fiscal 2005-06 was 13.00 mills with an additional .5 mills for City debt.

Property taxes are recognized in the fiscal year in which they are levied.

C. Contingent Liabilities

Grosse Pointes-Clinton Refuse Disposal Authority

In April 2003, the State of Michigan Department of Environmental Quality (the "MDEQ") sent to the City, and numerous other potentially responsible parties, a Demand for Reimbursement of State Costs for remediation of the Fort Gratiot Sanitary Landfill due to the City's membership in the Grosse Pointes-Clinton Refuse Authority (the "Authority"), a separate corporation. The letter demanded payment in the amount of \$1,723,157, plus continuing costs and interest. The total remediation costs for all eight member communities of the Authority are currently estimated at approximately \$10,000,000.

In August 2003, the Authority issued a letter to the MDEQ requesting that all member communities be eliminated from the MDEQ's list of potential responsible parties. The City intends to vigorously pursue its defense as a potential responsible party, but cannot now readily determine what the outcome will be.

Grosse Pointe St. Clair Associates, LLC v. City of Grosse Pointe

In June of 2006, the owner of a large commercial building in the City of Grosse Pointe, Grosse Pointe St. Clair Associates, LLC, filed a petition in the Michigan Tax Tribunal challenging their real property tax assessment. If the taxpayer's position is sustained,

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

there will be a financial impact of approximately \$40,000 per year. The City is contesting this claim.

Murphy v. Grosse Pointe

In March of 2006, certain Grosse Pointe residents filed an action in Wayne County Circuit Court seeking injunctive relief against the City with respect to a condominium construction project proposed by Sunrise Development, Inc. The complaint was subsequently amended to add a claim of inverse condemnation asserting damages in excess of \$25,000. The City was able to have the complaint dismissed in Circuit Court on summary disposition. The plaintiffs have now filed an appeal with the Michigan Court of Appeals.

General

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

D. Post-employment Benefits

Retiree Health Care

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 37 retirees and their spouses are receiving benefits. The City includes pre-Medicare retirees and their spouses in its insured health care plan and pays a percentage of the premiums based on the number of years of service for all retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are paid by the Pension Trust Fund and recognized as the insurance premiums become due; during the year, this amounted to approximately \$215,000.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Defined Benefit Pension Plan

Plan Description

The City of Grosse Pointe Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Grosse Pointe. This plan covers all full-time employees of the City. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 46 retirees and beneficiaries currently receiving benefits and 2 terminated employees entitled to benefits but not yet receiving them, and 51 current active employees. The plan does not issue a separate financial report. The system provides retirement and post-employment benefits as well as death and disability benefits.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I-D. and III-A. for investment information.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and other employee groups and requires a contribution from the public safety employees of 6 percent and all other City employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the year ended June 30, 2006 the City's annual pension costs were fully funded with credits resulting from the amortization of plan assets in excess of plan liabilities. The City was not required and did not make a contribution during the year. The entry age actuarial cost method was used to determine the required contribution of \$0 based on the December 31, 2005 actuarial valuation. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return and (b) projected salary increases of 5.5 percent to 9.5 percent per year. Both (a) and (b) include an inflation component of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation (NPO)</u>
2004	\$ -	n/a	\$ -
2005	-	n/a	-
2006	-	n/a	-

***REQUIRED SUPPLEMENTARY
INFORMATION***

CITY OF GROSSE POINTE, MICHIGAN

Required Supplementary Information (Unaudited)

Retirement Benefits:

Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (a-b)	Funded Ratio (Percentage) (a/b)	Covered Payroll (c)	Overfunded AAL as a Percentage of Covered Payroll
12/31/00	\$ 30,261,530	\$ 16,924,392	\$ 13,337,138	178.8	\$ 2,598,727	513.2
12/31/02	27,681,156	19,081,040	8,600,116	145.1	2,595,147	331.4
12/31/03	29,139,491	18,887,820	10,251,671	154.3	2,902,824	353.2
12/31/04	30,277,581	19,566,266	10,711,315	154.7	2,750,353	389.5
12/31/05	30,876,362	20,458,379	10,417,983	150.9	3,063,467	340.1

There was no actuarial valuation performed as of December 31, 2001.

Schedule of Employer Contributions

Years Ended June 30	Annual Required Contribution	Percentage Contributed
2001	-	n/a
2002	-	n/a
2003	-	n/a
2004	-	n/a
2005	-	n/a

Post-employment Benefits

Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (Percentage) (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll
12/31/00	\$ 2,551,571	\$ 3,107,305	\$ 555,734	82.1	\$ 2,598,727	21.4
12/31/02	1,403,232	2,254,340	851,108	62.2	2,595,147	32.3
12/31/03	1,403,232	2,753,152	1,349,920	51.0	2,902,824	46.5
12/31/04	1,403,232	2,988,814	1,585,582	46.9	2,750,353	57.7

There was no actuarial valuation performed as of December 31, 2001 and 2005.

CITY OF GROSSE POINTE, MICHIGAN

Required Supplementary Information (Unaudited)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	10 years
Asset valuation method	4 Year Smoothed Market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases *	5.5% - 9.5%
* Includes inflation at	5.0%
Cost of living adjustments	None

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF GROSSE POINTE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Major Streets</u>	<u>Drug Forfeiture</u>	<u>Budget Stabilization</u>	<u>Debt Service</u>	
Assets					
Cash and investments	\$ -	\$ -	\$ 475,000	\$ -	\$ 475,000
Due from other funds	40,891	43,268	-	-	84,159
Due from other governments	39,357	-	-	-	39,357
Prepaid expenditures	836	-	-	-	836
	<u>\$ 81,084</u>	<u>\$ 43,268</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 599,352</u>
Liabilities					
Accounts payable	\$ 11,648	\$ -	\$ -	\$ -	\$ 11,648
Accrued liabilities	2,133	-	-	-	2,133
Due to other funds	67,303	-	-	-	67,303
	<u>81,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,084</u>
Fund balance					
Undesignated	-	43,268	475,000	-	518,268
Total liabilities and fund balance	<u>\$ 81,084</u>	<u>\$ 43,268</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 599,352</u>

CITY OF GROSSE POINTE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year ended June 30, 2006

	Special Revenue			Debt Service	Total Nonmajor Governmental Funds
	Major Streets	Drug Forfeiture	Budget Stabilization	Debt Service	
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 186,090	\$ 186,090
Intergovernmental					
State	244,602	-	-	-	244,602
Other	-	39,645	-	-	39,645
Total revenues	244,602	39,645	-	186,090	470,337
Expenditures					
Current:					
Public safety	-	14,944	-	-	14,944
Public works					
Construction	18,673	-	-	-	18,673
Routine maintenance	221,675	-	-	-	221,675
Winter maintenance	19,559	-	-	-	19,559
Traffic service	17,534	-	-	-	17,534
Administration	16,685	-	-	-	16,685
Debt service					
Principal	-	-	-	185,000	185,000
Interest and fees	-	-	-	179,551	179,551
Capital outlay	-	600	-	-	600
Total expenditures	294,126	15,544	-	364,551	674,221
Revenues (under) over expenditures	(49,524)	24,101	-	(178,461)	(203,884)
Other financing sources (uses)					
Transfers in	40,891	-	-	178,461	219,352
Net change in fund balances	(8,633)	24,101	-	-	15,468
Fund balances, beginning of year	8,633	19,167	475,000	-	502,800
Fund balances, end of year	\$ -	\$ 43,268	\$ 475,000	\$ -	\$ 518,268

CITY OF GROSSE POINTE, MICHIGAN

DETAILED SCHEDULE OF REVENUES

BUDGET AND ACTUAL

GENERAL FUND

For the Year ended June 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Property taxes				
Property taxes	\$ 5,038,298	\$ 5,038,298	4,822,435	\$ (215,863)
Payments in lieu of taxes	60,000	60,000	60,000	-
Property tax administration fees	108,600	108,600	108,115	(485)
Interest, penalties and other	16,000	16,000	15,747	(253)
Total property taxes	5,222,898	5,222,898	5,006,297	(216,601)
Licenses and permits				
Business licenses	5,300	5,300	5,994	694
Building permits	40,000	40,000	62,863	22,863
Electrical, heating and plumbing permits	23,400	23,400	30,362	6,962
Code enforcement	11,000	11,000	10,585	(415)
Other	504	504	718	214
Total licenses and permits	80,204	80,204	110,522	30,318
Federal sources				
CDBG program	67,000	67,000	63,191	(3,809)
Other Federal revenue	20,000	20,000	-	(20,000)
Total federal sources	87,000	87,000	63,191	(23,809)
State sources				
Revenue-sharing	512,584	512,584	504,507	(8,077)
Liquor license fees	2,100	2,100	2,179	79
Total state sources	514,684	514,684	506,686	(7,998)
Local sources				
Livescan grant	50,000	50,000	-	(50,000)
Charges for services				
Recreation program fees	27,730	27,730	26,456	(1,274)
Refuse and recycling collection	90,000	90,000	104,693	14,693
Vital statistics and ambulance fees	52,000	52,000	52,133	133
Other charges for services	16,500	16,500	15,671	(829)
Total charges for services	186,230	186,230	198,953	12,723

(Continued)

CITY OF GROSSE POINTE, MICHIGAN

DETAILED SCHEDULE OF REVENUES

BUDGET AND ACTUAL

GENERAL FUND

For the Year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Fines and forfeitures				
Municipal Court and probation fees	202,442	202,442	243,667	41,225
Interest and rent				
Interest	150,000	150,000	180,507	30,507
Other revenue				
Miscellaneous	175,162	175,162	447,229	272,067
Proceeds from insurance	-	-	24,046	24,046
Sale of capital assets	2,500	2,500	10,940	8,440
Reimbursements from other funds	208,699	208,699	230,635	21,936
Total other revenue	386,361	386,361	712,850	326,489
Total revenue	\$ 6,879,819	\$ 6,879,819	\$ 7,022,673	\$ 142,854

CITY OF GROSSE POINTE, MICHIGAN

DETAILED SCHEDULE OF EXPENDITURES

BUDGET AND ACTUAL

GENERAL FUND

For the Year ended June 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Judicial				
Personnel	\$ 82,899	\$ 82,899	\$ 89,709	\$ (6,810)
Supplies and capital outlay	61,290	41,290	34,449	6,841
Professional and contractual	22,104	66,104	31,238	34,866
Total judicial	166,293	190,293	155,396	34,897
General government				
City administration				
Personnel	176,528	176,528	174,693	1,835
Supplies and capital outlay	74,102	74,102	68,564	5,538
Professional and contractual	292,805	378,805	362,758	16,047
Human resources				
Personnel	57,010	57,010	46,043	10,967
Supplies and capital outlay	7,140	7,140	8,229	(1,089)
Clerk/Elections				
Personnel	74,872	74,872	70,588	4,284
Supplies and capital outlay	2,950	2,950	1,914	1,036
Professional and contractual	15,092	15,092	10,963	4,129
Finance				
Personnel	180,424	180,424	170,446	9,978
Supplies and capital outlay	300	300	10	290
Professional and contractual	19,900	25,150	22,719	2,431
Board of Review	64,084	64,084	43,727	20,357
Inspections	95,778	95,778	87,418	8,360
Total general government	1,060,985	1,152,235	1,068,072	84,163
Public safety				
Personnel	2,192,841	2,372,841	2,292,144	80,697
Supplies and capital outlay	248,856	224,356	188,429	35,927
Professional and contractual	337,332	341,332	319,279	22,053
Total public safety	2,779,029	2,938,529	2,799,852	138,677

(Continued)

CITY OF GROSSE POINTE, MICHIGAN

DETAILED SCHEDULE OF EXPENDITURES

BUDGET AND ACTUAL

GENERAL FUND

For the Year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Public works				
Department of Public Works				
Personnel	539,574	539,574	533,270	6,304
Supplies and capital outlay	67,920	67,920	83,692	(15,772)
Refuse disposal	173,500	173,500	134,784	38,716
Recycling	66,144	66,144	66,694	(550)
Street lighting	171,564	171,564	141,675	29,889
Other professional and contractual	101,956	117,956	127,976	(10,020)
Total public works	1,120,658	1,136,658	1,088,091	48,567
Parks and recreation				
Personnel	377,034	377,034	378,693	(1,659)
Supplies and capital outlay	47,895	47,895	33,856	14,039
Professional and contractual	180,630	188,630	202,686	(14,056)
Total parks and recreation	605,559	613,559	615,235	(1,676)
Capital outlay	186,950	372,600	400,199	(27,599)
Other financing uses				
Transfers out	1,160,286	1,160,286	973,833	186,453
Total expenditures and other financing uses	\$ 7,079,760	\$ 7,564,160	\$ 7,100,678	\$ 463,482

CITY OF GROSSE POINTE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREETS
For the Year ended June 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 222,000	\$ 222,000	\$ 244,602	\$ 22,602
Expenditures				
Construction	350,000	-	18,673	18,673
Routine maintenance	192,336	192,336	221,675	29,339
Winter maintenance	57,394	57,394	19,559	(37,835)
Traffic services	16,790	16,790	17,534	744
Administration	30,744	30,744	16,685	(14,059)
Total expenditures	647,264	297,264	294,126	(3,138)
Excess (deficiency) of revenues over (under) expenditures	(425,264)	(75,264)	(49,524)	25,740
Net change in fund balances	(425,264)	(75,264)	(8,633)	66,631
Fund balance, beginning of year	8,633	8,633	8,633	-
Fund balance (deficit), end of year	\$ (416,631)	\$ (66,631)	\$ -	\$ 66,631



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

November 29, 2006

To the City Council
City of Grosse Pointe, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Grosse Pointe, Michigan* as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Grosse Pointe, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Grosse Pointe, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehman Johnson".



REHMANN ROBSON

Certified Public Accountants

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November 29, 2006

To The City Council
City of Grosse Pointe

In planning and performing our audit of the financial statements of the *City of Grosse Pointe*, for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated November 29, 2006, on the financial statements of the *City of Grosse Pointe*.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

We would like to thank the staff and management of the *City of Grosse Pointe* for their assistance and cooperation in completing the audit.

A.) FUND BALANCES

During our audit procedures we noted instances where fund balance amounts did not tie directly to the prior year audited amounts.

This condition results in an increased risk of misstatements in interim financial statements and the year-end financial results.

Recommendation

We would recommend that fund balance amounts be reconciled to the prior year ending audited financial fund balances. We believe that this will increase the City's internal controls over interim financial reporting and year-end results.

Management Response

The reason the capital asset subledger did not tie directly to prior year amounts was that adjustments had to be made to the capital asset subledger to accurately reflect the City's investment in fixed assets. The balances have since been corrected and accurately reported.

A second situation was the double posting of a single transaction in the General Fund, which has been corrected. Except for the above instances and for the reasons noted, the City does reconcile fund balance amounts to the prior year audit.

B.) SEGREGATION OF OPEB ASSETS IN THE PENSION TRUST

During our audit we noted that Other Post Employment Benefits (i.e. retiree health care) assets were not segregated and accounted for separately from the assets held for pension benefits.

We believe that this condition increases the risk of misstating amounts that are held for retiree health care benefits and the amounts that are held for pension benefits.

Recommendation

We would recommend that the City consider establishing as separate fund that show the activity and resources held between the City's regular pension assets and those held for retiree health care. We believe that this will assist the City in determining and providing the actuary the correct amount of assets to use in the valuation process and provide for greater clarity in presenting the financial information related to the pension trust fund.

Management Response

On June 30, 2006, the City transferred \$1,543,474.26 into a separate trust account for the purpose of segregating and accounting for retiree health care separate from pension benefits. The City will create a separate fiduciary fund in the financial records titled the Public Employee Health Care Fund to account for this OPEB activity.

C.) POSTRETIRMENT HEALTH CARE

GASB Statement Number 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions will first be effective for the City's 2009/2010 fiscal year. Generally, the provisions of this statement will require the City to have an actuarial valuation performed of its post-employment benefits other than pensions, (i.e. post-employment health care) and will require the City to recognize at the governmental wide level or to make actuarially determined contributions to a trust or equivalent type account to pay for those benefits.

Recommendation:

We would recommend that the City consider the future financial impact on the City by reviewing the Rodwan Consulting Company actuarial study as of December 31, 2004 of what the required contributions will be as compared to the current "pay as you go" method that the City currently employs.

There are many things that the City can do to mitigate the financial impact with proper planning and an early action plan. This includes beginning to pre-fund this liability, which will ultimately reduce the actuarially required contributions at the time of implementation. In addition, the City may consider eliminating or offering an alternative benefit such as a defined contribution plan in lieu of a defined benefit plan to new employees.

Management Response

The City's actuary, Rodwan Consulting, is in the process of preparing a study as of June 30, 2006 of the current and future requirements of providing retiree health care, utilizing the segregated retiree health care trust account established during the audited year in question.